

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Willard Library</u>	County Calhoun
Audit Date 6/30/04	Opinion Date 8/18/04	Date Accountant Report Submitted To State: 09/17/03	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 67 W. Michigan Ave., Suite 500	City Battle Creek	State MI	ZIP 49017
Accountant Signature 			

Willard Public Library

**Financial Report
With Supplemental Information
June 30, 2004**

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Independent Auditor's Report

To the Board of Trustees
Willard Public Library

We have audited the accompanying financial statements of the governmental activities and each major fund of the Willard Public Library as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Willard Public Library as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Willard Public Library. We did not examine this data and, accordingly, do not express an opinion thereon.

As discussed in Note 1, the Library adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

Plante & Moran, PLLC

August 18, 2004

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Willard Public Library

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts – *management's discussion and analysis (this section)*, *the basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

- The first five columns of the financial statements includes information on the Library's various funds under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *Library as a Whole Financial Statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Willard Public Library

Management's Discussion and Analysis

Condensed Financial Information

The table below compares key financial information in condensed format:

	<u>2004</u>
Current assets	\$ 7,118,749
Capital assets	<u>6,362,637</u>
Total assets	13,481,386
Long-term debt	2,897,000
Other liabilities	<u>571,470</u>
Total liabilities	3,468,470
Net assets:	
Invested in capital assets, net of debt	3,697,637
Restricted for special purposes	427,016
Restricted for capital projects	30,318
Unrestricted	<u>5,857,945</u>
Total net assets	<u>\$ 10,012,916</u>
Revenue:	
Property taxes	\$ 4,321,335
Other	<u>1,336,386</u>
Total revenue	5,657,721
Expenses - Library services	<u>4,588,092</u>
Change in net assets	<u><u>\$ 1,069,629</u></u>

Willard Public Library

Management's Discussion and Analysis

Current Year Highlights

This year the Library opened a branch in an effort to solve its space problem downtown and meet a high user demand. To enhance services, the Library also opened a Youth Area in the Main Library.

The cost of the building, servicing, and staffing at the branch can be seen in the Capital Projects Fund. A portion of the cost was paid through a Bond which was a new cost for the Library. Additionally, this year the Library has seen growth in the Endowment Funds due to donations in support of the new branch.

Library Budgetary Highlights

Property tax is the main source of income for the Library, accounting for over 75% of the income. Other sources have remained steady within a tough economic climate. Library usage rates (visits and materials borrowed), are at an all time high.

Expenses for materials and staff have increased this year as a result of the new branch. The Library was still able to carry over some revenue into the next fiscal year, as both tax revenue and expenses came in a little better than projected. Additionally, new branch expenses expected to be incurred in the current fiscal year have been rolled into the next fiscal year.

Library Funds

The Library's major funds include the General Fund; the Special Revenue Fund; the Capital Project Fund; and the Debt Service Fund. The Library's fund balance increased slightly this year as mentioned in the above paragraph.

Next Year's Millage Rates

The Library millage level will remain at 2.0 for the next fiscal year. The capture of tax revenue by the City in the next fiscal year will result in negative cash-flow for the Library. The Library's fund balance will be used to shore-up this loss and the Library will closely monitor expenses. As this will be the first full year of operations for the new branch, the Library will be carefully tracking the actual expenses compared to the estimates. Additionally, the Library will address the long-term impact of the revenue capture by the City and how it impacts both the operating expenses and the restricted funds within the Library's fund balance.

Willard Public Library

Balance Sheet - Statement of Net Assets June 30, 2004

	Individual Library Funds						Library as a whole
	Balance Sheet -					Statement of	
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Fund	Modified Accrual	Adjustments (Note 2)	Net Assets - Full Accrual
Assets							
Cash and cash equivalents (Note 3)	\$ 6,035,739	\$ 426,673	\$ 5,636	\$ 190,633	\$ 6,658,681	\$ -	\$ 6,658,681
Receivables	175,554	343	-	166	176,063	-	176,063
Prepaid assets	279,559	-	207	3,038	282,804	-	282,804
Due from other funds	1,201	-	-	-	1,201	-	1,201
Capital assets - Net of accumulated depreciation (Note 4)	-	-	-	-	-	6,362,637	6,362,637
Total assets	\$6,492,053	\$ 427,016	\$ 5,843	\$ 193,837	\$ 7,118,749	6,362,637	13,481,386
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 38,224	\$ -	\$ -	\$ 162,318	\$ 200,542	-	200,542
Accrued liabilities	217,590	-	-	-	217,590	-	217,590
Due to other funds	-	-	-	1,201	1,201	-	1,201
Deferred revenue	62,137	-	-	-	62,137	-	62,137
Long-term debt - Current portion	-	-	-	-	-	90,000	90,000
Total current liabilities	317,951	-	-	163,519	481,470	90,000	571,470
Long-term Debt - net of current portion (Note 5)	-	-	-	-	-	2,897,000	2,897,000
Total liabilities	317,951	-	-	163,519	481,470	2,987,000	3,468,470
Fund Balance/Net Assets							
Fund balances:							
Reserved for prepaid expenses	279,559	-	-	-	279,559	(279,559)	-
Unreserved Fund balances:							
Designated for capital improvements	2,500,000	-	-	-	2,500,000	(2,500,000)	-
Designated for equipment purchases	750,000	-	-	-	750,000	(750,000)	-
Designated for sick payable	322,000	-	-	-	322,000	(322,000)	-
Designated for reserve fund	521,114	-	-	-	521,114	(521,114)	-
Undesignated	1,801,429	427,016	5,843	30,318	2,264,606	(2,264,606)	-
Total fund balance	6,174,102	427,016	5,843	30,318	6,637,279	(6,637,279)	-
Total liabilities and fund balance	\$6,492,053	\$ 427,016	\$ 5,843	\$ 193,837	\$ 7,118,749		
Net Assets							
Invested in capital assets - Net of debt						3,697,637	3,697,637
Restricted for special purposes						427,016	427,016
Restricted for capital projects						30,318	30,318
Unrestricted						5,857,945	5,857,945
Total net assets						\$ 10,012,916	\$ 10,012,916

Willard Public Library

Statement of Revenue, Expenditures and Changes in Fund Balance / Statement of Activities Year Ended June 30, 2004

	Individual Library Funds						Library as a whole
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Fund	Revenues and Expenditures - Modified Accrual	Adjustments (Note 2)	Statement of Activities - Full Accrual
Revenue:							
Taxes	\$ 4,321,335	\$ -	\$ -	\$ -	\$ 4,321,335	\$ -	\$ 4,321,335
State sources	155,081	-	-	-	155,081	-	155,081
Penal fines	313,395	-	-	-	313,395	-	313,395
Fees and book fines	137,657	-	-	-	137,657	-	137,657
Interest	64,893	2,351	63	14,363	81,670	-	81,670
Local contributions and contracts	350,527	277,240	-	20,816	648,583	-	648,583
Total revenue	5,342,888	279,591	63	35,179	5,657,721	-	5,657,721
Expenditures:							
Capital expenditures	124,592	-	-	2,241,207	2,365,799	(2,365,799)	-
Program services - Audiovisual, books and periodicals	672,425	-	-	-	672,425	(672,425)	-
Supporting services - General administration:							
Personnel	2,991,627	-	-	-	2,991,627	2,000	2,993,627
Office supplies	90,880	-	-	-	90,880	-	90,880
Repairs and maintenance supplies	30,383	-	-	-	30,383	-	30,383
Purchased services	292,945	-	249	19,215	312,409	-	312,409
Principal payments	-	-	85,000	-	85,000	(85,000)	-
Interest payments	-	-	112,698	-	112,698	-	112,698
Communications	96,932	-	-	-	96,932	-	96,932
Insurance	40,596	-	-	-	40,596	-	40,596
Public utilities	72,776	-	-	33,499	106,275	-	106,275
Depreciation	-	-	-	-	-	627,178	627,178
Repairs and maintenance	177,114	-	-	-	177,114	-	177,114
Total supporting services - General administration	3,793,253	-	197,947	52,714	4,043,914	544,178	4,588,092
Total expenditures	4,590,270	-	197,947	2,293,921	7,082,138	(2,494,046)	4,588,092
Excess of Revenue Over (Under) Expenditures	752,618	279,591	(197,884)	(2,258,742)	(1,424,417)	2,494,046	1,069,629
Other Financing Sources (Uses)							
Operating transfers	(265,867)	-	197,698	68,169	-	-	-
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	486,751	279,591	(186)	(2,190,573)	(1,424,417)	2,494,046	1,069,629
Fund Balance/Net Assets - July 1, 2003	5,687,351	147,425	6,029	2,220,891	8,061,696	881,591	8,943,287
Fund Balance/Net Assets - June 30, 2004	<u>\$ 6,174,102</u>	<u>\$ 427,016</u>	<u>\$ 5,843</u>	<u>\$ 30,318</u>	<u>\$ 6,637,279</u>	<u>\$ 3,375,637</u>	<u>\$ 10,012,916</u>

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

Reporting Entity

The Library is located in the City of Battle Creek, Michigan and is governed by a five-member board. The Library is primarily funded through a tax levy, fines and fees and charitable donations. Revenue is used to operate and staff the Library. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service and special financing relationships. The Library is a District Library formed pursuant to the District Library Establishment Act (1989 Public Act 24) by an agreement between the school districts of Battle Creek, Harper Creek, Lakeview and Pennfield. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following major governmental funds:

The General Fund is the Library's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue Fund is used to account for revenues received for a specific purpose held in an endowment account.

The Debt Service Fund accounts for the annual payment of principal, interest, and expenses in connection with long-term debt.

The Capital Project Fund is used to account for the construction of a new branch of the library, and all expenses in connection with the project.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Capital Assets - Capital assets are defined by the Library as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Building improvements, furniture and fixtures, equipment, and library books, periodicals, etc. are depreciated using the straight-line method over the following useful lives:

Buildings	20-50 years
Building improvements	10-20 years
Furniture and fixtures	5-10 years
Library books, periodicals, etc.	10 years
Equipment	5-10 years

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Property Taxes - Properties are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due on February 15 with the final collection date of February 28 before they are added to the county tax rolls.

Change in Accounting - During the current year, the Library adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As a result, these financial statements include a full accrual accounting for all of the Library's activities. GASB Statement No. 34 also requires fixed assets to be recorded with related depreciation. Also, the Library's Endowment Fund which was previously reported as an expendable trust fund is required by GASB Statement No. 34 to be reported as Special Revenue Fund.

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Total fund balances and the net change in fund balances of the Library's governmental funds differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the governmental fund balance sheet and statement of revenue, expenditures, and changes in fund balances. The following is a reconciliation of fund balance to net assets and net change in fund balances to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 6,637,279
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	6,362,637
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(2,665,000)
Compensated absences are included as a liability	<u>(322,000)</u>
Total Net Assets - Full Accrual Basis	<u>\$ 10,012,916</u>

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net Change in Fund Balances - Modified Accrual Basis	\$ (1,424,417)
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Amounts reported in the statement of activities are different because:

Capital outlay is not an expense of the current period	3,038,224
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Capital costs are allocated over their estimated useful lives as depreciation	(627,178)
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Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(2,000)
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Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>85,000</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 1,069,629</u></u>
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Willard Public Library

Notes to Financial Statements June 30, 2004

Note 3 - Cash and Investments

The Library's deposits and investments at June 30, 2004 are composed of the following:

	<u>Governmental Funds</u>
Bank deposits	\$ 221,530
Bank investment pools	6,436,445
Petty cash and cash on hand	<u>706</u>
Total	<u>\$ 6,658,681</u>

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$475,229. Of that amount, \$106,158 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - The Library is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

The Library's investments during the year consisted solely of bank investment pools. There was \$6,436,445 invested in such funds at June 30, 2004. Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Library believes that the investments in these funds comply with the investment authority noted above.

The bank investment pools are regulated by the Michigan Banking Act and the fair value of the position in the pools is the same as the value of the pool shares.

Willard Public Library

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<u>Assets not being depreciated:</u>				
Land	\$ 980,185	\$ -	\$ -	\$ 980,185
<u>Depreciable capital assets:</u>				
Furniture and fixtures	639,881	306,651	-	946,532
Equipment	872,787	125,792	-	998,579
Building & building improvements	787,371	1,450,748	-	2,238,119
Land improvements	104,257	48,599	-	152,856
Books, periodicals, etc	<u>4,705,523</u>	<u>434,009</u>	<u>-</u>	<u>5,139,532</u>
Subtotal	7,109,819	2,365,799	-	9,475,618
Less accumulated depreciation	<u>(3,465,988)</u>	<u>(627,178)</u>	<u>-</u>	<u>(4,093,166)</u>
Net capital assets being depreciated	3,643,831	1,738,621	-	5,382,452
Net capital assets	<u>\$ 4,624,016</u>	<u>\$ 1,738,621</u>	<u>\$ -</u>	<u>\$ 6,362,637</u>

Capital assets, including library books, are recorded at cost. Depreciation expense was \$627,178 for the year ended June 30, 2004.

Willard Public Library

Notes to Financial Statements June 30, 2004

Note 5 - Long-term Debt

Long-term debt is comprised of the following at June 30, 2004:

2002 General Obligation Limited Tax Library Building and Site Bonds, payable in annual installments of \$90,000 to \$225,000, plus interest at rates from 3.00% to 4.75% through May 1, 2022	\$ 2,665,000
Accrued sick leave	<u>322,000</u>
Total debt	2,987,000
Amount due within one year	<u>(90,000)</u>
Total long-term debt	<u>\$ 2,897,000</u>

Debt Service Requirement – The annual requirement to service debt outstanding as of June 30, 2004 (excluding accrued sick leave), is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 90,000	\$ 110,360	\$ 200,360
2006	95,000	107,660	202,660
2007	100,000	104,810	204,810
2008	105,000	101,560	206,560
2009	115,000	98,148	213,148
2010-2014	660,000	423,150	1,083,150
2015-2019	865,000	270,578	1,135,578
2020-2022	<u>635,000</u>	<u>61,512</u>	<u>696,512</u>
Total	<u>\$ 2,665,000</u>	<u>\$ 1,277,778</u>	<u>\$ 3,942,778</u>

The Library's employees are granted 12 sick days per year. Unused sick leave may be accumulated up to certain limits. Employees are paid for unused sick leave upon retirement. Sick leave benefit of \$322,000 is recorded at June 30, 2004.

Willard Public Library

Notes to Financial Statements June 30, 2004

Note 5 - Long-term Debt (Continued)

The following is a summary of long-term debt transactions of the Library for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
2002 General Obligation				
Limited Tax Library				
Building and Site Bonds	\$ 2,750,000	\$ -	\$ 85,000	\$ 2,665,000
Accrued sick payable	<u>320,000</u>	<u>2,000</u>	<u>-</u>	<u>322,000</u>
Total	<u>\$ 3,070,000</u>	<u>\$ 2,000</u>	<u>\$ 85,000</u>	<u>\$ 2,987,000</u>

Interest expense for the year ended June 30, 2004 amounted to \$112,698.

Note 6 - Budget Information

The annual budget is prepared by the Library Director and adopted by the Library Board of Trustees; subsequent amendments are approved by the Library Board of Trustees. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (statement of revenue, expenditures and changes in fund balance - budget and actual) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations of the General Fund budget, as adopted by the Library Board, is available at the Library for inspection.

Note 7 - Battle Creek School District

The building and real estate used by the Library are being leased from the School District of the City of Battle Creek for \$1 per year, as stated in the agreement entered into with the School District in 1994. The fair market value of this lease is not known.

Note 8 - Defined Benefit Pension Plan

The Library participates in two defined benefit pension plans, the Michigan Public School Employees' Retirement System (MPSERS) and the Municipal Employees' Retirement System of Michigan (MERS). The Library was previously included as part of the School District of the City of Battle Creek, Michigan. Employees formerly employed by the School District were eligible to continue participation in the MPSERS plan. Employees hired after the District Library was formed are eligible to participate in the MERS plan.

Michigan Public School Employees' Retirement System

Plan Description - The Michigan Public School Employees' Retirement System (MPSERS) is a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan. The System provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the System result from the effects of implementing the School Finance Reform Act. Under these procedures, the Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2003 through June 30, 2004. Basic plan members make no contributions, but contribute to a Member Investment Plan (MIP) at rates ranging from 3.0 percent to 4.3 percent of gross wages. The Library's contributions to the MPSERS plan for the years ended June 30, 2004, 2003 and 2002 were \$147,150, \$143,559 and \$141,511, respectively.

Post Employment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the Library's total contribution to the MPSERS plan discussed above.

Note 8 - Defined Benefit Pension Plan (Continued)

Municipal Employees Retirement System of Michigan

Plan Description - The Municipal Employees Retirement System of Michigan (MERS) is a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system. The System provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, less a 4% contribution by employees. The Library's contribution rates ranged from 5.93 to 6.41 percent for the period July 1, 2003 through June 30, 2004 of the covered payroll to the plan.

Annual Pension Cost - For the year ended June 30, 2004, the Library made \$51,916 of contributions to the plan, based on the actuarial valuation. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0% investment rate of return, (b) projected salary increases of 4.5 percent per year, attributable to inflation, and (c) 0 – 4.2 percent per year attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll contributions over a 30-year period.

Three year trend information:

	Fiscal year ended June 30:		
	2002	2003	2004
Annual pension cost	\$ 21,561	\$ 33,001	\$ 51,916
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-
	Actuarial valuation as of December 31:		
	2001	2002	2003
Actuarial value of assets	\$ 207,634	\$ 277,834	\$ 385,841
Actuarial Accrued Liability (entry age)	222,247	323,242	502,433
Unfunded (Overfunded) AAL	14,613	45,408	116,592
Funded ratio	93%	86%	77%
Covered payroll	557,970	723,837	806,950
UAAL as a percentage of covered payroll	2.6%	6.3%	14.4%

Note 9 - Risk Management

The Library is exposed to various risks of loss related to property loss, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library participates in the Middle Cities Risk Management Trust and the Michigan Municipal League (risk pools) for claims relating to the above.

The shared-risk pool programs in which the Library participates operate as a common risk-sharing management program for school districts and municipalities in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Funds Held by the Battle Creek Community Foundation

The Library is the beneficiary of endowment funds at the Battle Creek Community Foundation that are considered permanent endowments to benefit the Library. The endowments are within the Foundation and not part of the Library's General Fund. Investment earnings are reinvested into the Fund and amounted to \$9,391 for the year ended June 30, 2004. The amount of the endowment funds held at Battle Creek Community Foundation in the Campbell Fund, Denman Fund and Willard Library Fund approximates \$891,000.

During the year, the Library withdrew past earnings on principal from the endowment funds held at the Battle Creek Community Foundation totaling \$6,300 and placed the monies in the special revenue fund.

Note 11 - Designated Fund Balance

Fund balance is designated for the following purposes:

Building	\$ 2,500,000
Equipment	750,000
Sick payable reserve	322,000
Reserve fund	<u>521,114</u>
Total designated fund balance	<u>\$ 4,093,114</u>

Note 12 - Commitment

The Library began constructing a new branch of the library during the year ended June 30, 2003. The amount of the construction contract totals approximately \$2,100,000, excluding the cost of a new collection and land. Approximately \$2,054,000 had been completed as of June 30, 2004. Therefore, the amount outstanding on the contract at June 30, 2004 was approximately \$46,000, plus retainage.

Other Supplemental Information



Willard Public Library

Required Supplemental Information Budgetary Comparison Schedule – General Fund Year Ended June 30, 2004

	Originally Adopted Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Taxes	\$ 4,261,745	\$ 4,261,745	\$ 4,321,335	\$ 59,590
State sources	151,045	151,045	155,081	4,036
Penal fines	325,000	280,000	313,395	33,395
Fees and book fines	110,000	120,000	137,657	17,657
Interest	70,000	60,000	64,893	4,893
Local contributions and contracts	315,794	352,789	350,527	(2,262)
Total revenue	5,233,584	5,225,579	5,342,888	117,309
Expenditures				
Capital expenditures	95,000	137,000	124,592	12,408
Program services - Audiovisual, books and periodicals	718,300	730,300	672,425	57,875
Supporting services - General administration:				
Personnel	3,020,579	3,024,945	2,991,627	33,318
Office supplies	84,000	99,000	90,880	8,120
Repairs and maintenance supplies	19,000	37,000	30,383	6,617
Purchased services	259,942	314,858	292,945	21,913
Communications	71,500	104,454	96,932	7,522
Insurance	51,825	43,825	40,596	3,229
Public utilities	77,800	84,800	72,776	12,024
Repairs and maintenance	148,615	186,615	177,114	9,501
Total supporting services - General administration	3,733,261	3,895,497	3,793,253	102,244
Total expenditures	4,546,561	4,762,797	4,590,270	172,527
Excess of Revenue Over Expenditures	687,023	462,782	752,618	289,836
Other Financing Sources (Uses)				
Operating transfers	(448,342)	(448,342)	(265,867)	182,475
Excess of Revenue and Other Financing Sources Over Expenditures and Other Uses	238,681	14,440	486,751	472,311
Fund Balance - Beginning of year	5,687,351	5,687,351	5,687,351	-
Fund Balance - End of year	<u>\$ 5,926,032</u>	<u>\$ 5,701,791</u>	<u>\$ 6,174,102</u>	<u>\$ 472,311</u>

Master Document

FIELD	VALUES
Company Name (Headings)	Willard Public Library
Company Name (Text)	Willard Public Library
D/B/A	D/b/a
Year End	June 30, 2004
Prior Year	June 30, 2003
2 Year Prior	June 30, 2002
Opinion Date	August 18, 2004
Comparative Date	June 30, 2004 and 2003
a2004	2004
a2003	2003
a2002	2002
a2001	2001